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FOR WHA/AND JANINE KEIL;  
USTR BENNETT HARMAN;  
LAC/AA JOSE CARDENAS; LAC/SA JEFF BAKKEN;  
EGAT/EG MARY OTT; EGAT/EG DAVID JESSE;  
LAC/RSD KERRY BYRNES

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SUBJECT: CORREA ADOPTS USAID-DESIGNED PROGRAM TO PROMOTE ECUADOR'S  
COMPETITIVENESS AND INVESTMENT

¶1. (SBU) Summary: At the close of a two hour meeting with President Rafael Correa on May 9, Correa adopted USAID's proposed production and investment promotion program. The program is market-driven, private sector oriented, and designed to improve Ecuador's competitiveness in world markets. At the end of the meeting, Production Minister Susana Cabeza de Vaca thanked USAID and told Correa that they could not have developed this strategy without USAID's help. Correa also then thanked USAID and asked for our continued support for this effort. Embassy welcomes this development as an indication of Correa's willingness to support pragmatic, market-based initiatives as well as his continued receptivity to U.S. development assistance. Limited USAID funds may constrain our future ability to participate as fully as Correa and his team may want. The next day Correa, in his national, weekly radio address, reconfirmed his adoption of this program. (END SUMMARY)

¶2. (SBU) Present at the meeting on May 9 were USAID Mission Director Alexandria Panehal, three USAID contractors, the Coordinating Minister of Production, Susana Cabeza de Vaca, the President's Chief of Staff and Communication Director, Vinicio Alvarado, the Planning Secretary (Coordinating Minister rank) Fander Falconi, and Ministry of Production staff. Both Alvarado and Falconi are perceived as part of Correa's inner circle. Susana Cabeza de Vaca was Correa's first supervisor at the University San Francisco of Quito and the two enjoy a long-standing and good personal and professional relationship.

¶3. (SBU) The May 9 meeting was held in Correa's private, more informal office and the limited number of invitees facilitated an animated discussion. Correa at first seemed tired --not surprising, since he had been flying all the previous night. But once he downed a cup of coffee, he perked up and was fully engaged in all aspects of the discussion. Correa asked pointed questions, clearly understood the approach and its economic, organizational, and political implications. The USAID-funded consultants, who briefed Correa on the initial design of this program in April, clearly commanded Correa's respect and confidence. The meeting was periodically punctuated by good natured ribbing between Correa, the consultants, and Susana Cabeza de Vaca.

4.(SBU) There were five components to the USAID presentation: the methodology used to select key sectors to promote exports and investment; the top 10 productive sectors and Ecuador's competitiveness relative to other countries; a new organizational structure to implement this program; a proposed budget; and a communication strategy to market the program to domestic audiences.

¶5. (SBU) Correa accepted the methodology that underlies the analysis. He initially took exception when the USAID consultants told him that indicators from the conservative think tank, Heritage Foundation, were used as part of their analysis. But the

consultants calmed Correa's criticisms by pointing out that the Heritage indicators actually ranked Ecuador higher than some of its competitors.

¶16. (SBU) Correa also approved the 10 productive sectors proposed by USAID. They are: flowers, tourism, processed fruits and vegetables, transport and logistics, consulting and engineering services, biofuels, fish products, forestry, wood products, and aquaculture.

¶17. (SBU) For each of these sectors, the USAID consultants highlighted Ecuador's relative competitive ranking against its primary competitors, such as Mexico, Peru, Colombia, Canada, and Brazil. Factors such as external image, existing trade relations, macro and micro-economic policies, and the cost of doing business determined each country's ranking. The analysis included a prioritized list of policy reforms and infrastructure improvements that the GOE should adopt in the short term in order to improve its competitiveness. For example, to develop the wood products sector, the consultants told Correa that Ecuador was at a serious competitive disadvantage by not participating in permanent trade agreements with key trading partners, such as the US, EU, and regional partners, in contrast to Peru which has just approved an FTA with US. Their analysis also identified specific countries where Ecuador should market its exports. When discussing the opportunities in the wood products sector, Correa and Alvarado were both engaged in the discussion about the opportunities for exporting to India and China and what opportunities existed for exporting bamboo and cane. Similarly, when discussing biofuels, Correa and Alvarado discussed the potential for alliances with Brazil.

¶18. (SBU) The third component was the internal organizational structure. The 'Project Management Unit' would be housed in the

Ministry of Production. Key management staff include the Project Management Unit Manager, nine sector specific managers, and two cross-sectoral managers covering policy reform and infrastructure. Correa approved the structure and the staffing pattern. He emphasized the need to hire the project unit manager right away, to delegate decision-making, and to measure and report on concrete results.

¶19. (SBU) The fourth component was the budget. The consultants estimated the GOE would need to fund the project management unit at \$2.3 million/year for at least three years and the investment promotion unit, ProEcuador, at \$1.7 million, for a total three-year GOE investment of \$12 million. No objections were raised.

¶10. (SBU) Finally, the fifth component was the communication strategy. In presenting this component, the USAID consultants were emphatic that Correa had to personally market this program, starting with his own cabinet. The consultants also emphasized that Correa needed to establish a partnership with the private sector or the program would fail.

¶11. (SBU) On May 15 USAID consultants presented the program to the GOE Productive Cabinet. 25 Ministers and Agency heads attended, including the Ministers of Industry, Agriculture, Tourism, Energy, and the Coordinating Minister for Social Development (that supervises another five ministries). Ideology played no part in the discussion. Rather, their discussion focused on practical issues related to how to implement the program, additional ways to bring the private sector into the process, and reporting on results. Given the President's endorsement of the program, they are anxious for their marching orders.

¶12. (SBU) In an ironic twist, both USAID-funded consultants happen to be Venezuelans. One is a former McKenzie executive and the other was the former Venezuelan Investment Attraction Agency Chief. Correa was so impressed with the former McKenzie executive that he asked him during the meeting to move to Ecuador as the new project management unit manager. The consultant later told Panehal that after the meeting Correa jokingly told him that he was tempted to call Chavez and have the consultant deported, just so Correa would have him to head his project management unit.

¶13. (SBU) At the conclusion of the meeting, Correa said he was happy to finally have a productive sector strategy for the country. He

told Fander Falconi to make sure the program was included in the National Development Plan.

¶14. (SBU) In his radio address on May 10, Correa spent several minutes summarizing the results of our meeting with him, although he did not mention USAID. He said 'We had another extremely important, very, very good meeting.' He stated that the key elements of the productive strategy are to diversify products, add value, open new markets and maximize competitiveness. Correa then went on to underscore his commitment to work with the private sector on this initiative 'in an integrated effort of the public and private sectors to transform the country.'

¶15. (SBU) Comment: The meeting offered an inside view into Correa's very hands-on and engaged style of management, and an example of how all policy decisions run through him personally. The USAID-designed program that Correa adopted links sector specific investments with the need to finance complementary infrastructure and adopt macro-economic policies that clarify, especially for the private sector, Ecuador's economic direction. This program gives Correa that road map. And Correa is clearly the one in the driver's seat.

JEWELL